

VZCZCXRO7436
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHKL #0997/01 3500802
ZNR UUUUU ZZH
R 160802Z DEC 09
FM AMEMBASSY KUALA LUMPUR
TO RUEHC/SECSTATE WASHDC 3584
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUCPDOG/USDOC WASHDC
RUEHGV/USMISSION GENEVA 1788

UNCLAS SECTION 01 OF 02 KUALA LUMPUR 000997

SIPDIS

DEPT FOR EB/TPP/MTA: B Nafziger
DEPT PASS USTR: K Ehlers
GENEVA FOR USTR

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [PREL](#) [WTO](#) [MY](#)

SUBJECT: MALAYSIA'S REVISED NATIONAL AUTO POLICY (NAP) FAILS TO
REMOVE KEY RESTRICTIONS

Summary and Comment

¶1. (SBU) In October 2009, GOM announced revisions to its National Auto Policy (NAP), in effect since 2005, which will be implemented in January 2010. The revised NAP lifts the freeze on some Manufacturing Licenses, and reduces intra-ASEAN duties and excise taxes, and sets aside tax exemptions for high-value added exports. However, the policy extends the Approved Permit (AP) system for another 10 years (effectively extending quota restrictions), expands import restrictions especially on used vehicles, and does not significantly change subsidies to the industry.

¶2. (SBU) Comment: U.S. firms will find little to cheer about in the changes to the NAP because there is no significant departure from the past in terms of opening up the market for imports or reducing subsidies to the "national" auto makers. Importers of passenger vehicles complain that the measures Malaysia maintains are protectionist, opaque, and potentially inconsistent with Malaysia's obligations under the WTO. According to one American manufacturer's regional representative, the NAP, even after these revisions, seriously restricts the ability of importers to compete on a level playing field. The key policy preferences for bumiputera ownership and high local content remain in place. The small liberalization measures, i.e. duty and excise reductions, are mostly in categories where "national" brands do not compete, or where the infrastructure does not exist (i.e. electric cars). End Summary and Comment.

National Auto Policy (NAP) - Objectives

¶3. (U) Malaysia has protected its automobile manufacturing industry from foreign competition using both high tariffs and nontariff barriers for the past 20 years. Even for cars produced in Malaysia, Malaysian government policies distinguish between "national" cars, (e.g., domestic producers Proton and Perodua) and "non-national" cars, which include most vehicles manufactured in Malaysia by non-Malaysian owned firms.

¶4. (U) Malaysia's current National Auto Policy (NAP) has been in effect since 2005. The NAP framework is intended to encourage increased foreign investment in Malaysia's auto sector, while simultaneously strengthening national carmakers Proton and Perodua.

¶5. (U) The NAP Framework's five major objectives have been:
-- to promote a competitive and viable automobile sector, in particular national car manufacturers;
-- to become a regional hub for manufacturing, assembly and distribution for automotive vehicles;
-- to enhance value added and local capabilities in the automotive sector;
-- to promote export-oriented Malaysian manufacturers as well as component and parts vendors;
-- to promote competitive and broad-based Bumiputera participation

in vehicle manufacturing, distribution and importation as well as in component and parts manufacturing."

Review of the NAP

¶16. (U) In November 2008, the (then) Deputy Prime Minister Najib Razak (currently prime minister) announced that the GOM would review the NAP to potentially liberalize the sector. In October 2009, the GOM announced the completion of its review of the NAP. The new measures will be implemented in January 2010.

¶17. (U) According to the Ministry of International Trade and Industry (MITI), the primary objectives of the review were to ensure the long-term viability and competitiveness of the industry, and to ensure that consumer interests, safety, and the environment were protected. Additional objectives included promoting new and existing investment, promoting utilization of the latest technology, and continued expansion of bumiputra participation in the industry.

¶18. (U) Based on the review, the GOM introduced 18 new policy measures or revisions. The policy measures covered adjustments to licensing, duties, incentives, technology, environment, safety, standards, and the Approved Permits (AP) system.

Manufacturing Licenses

¶19. (U) The NAP lifts the freeze on Manufacturing Licenses for luxury vehicles, pick-up trucks, commercial vehicles, hybrid electric

KUALA LUMP 00000997 002 OF 002

vehicles, and motorcycles with engine capacity over 200 cc. Also, there will not be any bumiputra equity requirements imposed on new manufacturing licenses. The current freeze on new licenses for rebuild activities, however, will remain in force.

Duty and excise taxes selectively reduced

¶10. (U) The new policy reduces the intra-ASEAN duty rate from 5 percent to zero by January 2010. Electric / hybrid vehicles will be exempt from duty and the excise tax reduced to 50 percent (from the usual 105 percent). Duties and excise taxes for other imports from non-ASEAN countries will remain unchanged.

Tax exemptions for high value added exports

¶11. (U) The revised NAP increases the income tax exemption for high-value added exports of vehicles and parts. Tax exemption on statutory income is based on the percentage increase in value-added of exports: if the value-added is at least 30 percent, 30 percent of the value is exempt from income tax (as compared to the previous 10 percent); if the value-added exceeds 50 percent, 50 percent is exempt (as compared to the previous 30 percent).

Gazette prices expanded to used vehicles

¶12. (U) Malaysia currently uses gazette prices (determined by MITI) for the purpose of computing the duty on the value of new imported vehicles. In that past, importers of used vehicles have reportedly under-declared the value of used cars. The NAP addresses this problem by establishing gazette prices for imported used motor vehicles.

Approved Permit (AP) system extended

¶13. (U) Malaysia's Approved Permit (AP) process, which restricts importing cars to government approved permit holders, is intended to favor Bumiputera (ethnic Malay's and members of native tribes) by enabling Bumiputera to set up automobile sales and service operations. Instead, the AP process has become a lucrative "middle

man" operation, where many Malay AP holders sell their permits to non-Malays and keep the cash. According to MITI statistics, 156 companies out of 254 have lost their APs since 1986 because of misuse or resale of their APs. This system adds thousands of dollars to the retail cost of imported cars.

¶14. (U) The revised NAP extends the planned phase-out of AP system to 2020 (from the previous planned 2010), and maintains the minimum 70 percent bumiputera equity requirement for prospective importers. (NOTE: GOM announced in January 2009 that they planned to extend the deadline for the phase-out, but probably not more than five years.) The revised NAP also further restricts importation of used vehicles, by terminating the open APs for used vehicles by December 31, 2015.

Automotive Development Fund (ADF)

¶15. (U) Malaysia's fiscal stimulus package set aside USD56 million for Malaysia's Automotive Development Fund. The purpose of the fund is to support the development of Malaysian auto manufacturers and auto dealers. Under the revised NAP, both the ADF and separate Industrial Adjustment Fund (IAF) will continue providing soft loans, grants and subsidies. The stated purpose of ADF is to "improve competitiveness of parts and components manufacturers through soft loans and grants," whereas the IAF grants are made available to "companies that create significant economic contribution."

KEITH